

The Clearing Corporation of India Limited

Instrument/Facility	Amount in INR Crores	Rating Action (May 2016)
Issuer Rating	-	IrAAA (Stable) Reaffirmed

ICRA has reaffirmed the issuer rating of “IrAAA (pronounced I R triple A) with a stable outlook to The Clearing Corporation of India Limited (CCIL). The rating is an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument. The rating takes into consideration the unique position of CCIL as the sole player for clearing and settlement of transactions across various instruments including G-Sec, money market and forex segments. CCIL’s authorisation under the Payment & Settlement Systems Act 2007 for the activities further underpins its position in the settlement system. The rating also factors in CCIL’s strong risk management capabilities, robust technology processes, and ability to effect significant reduction in bilateral exposure between counterparties through its clearing and settlement process. In addition, the rating also takes note of CCIL’s large institutional client base that operates in a regulated environment providing significant comfort to its risk metrics.

The Clearing Corporation of India Limited (CCIL) was set up at the initiative of RBI in 2001 (operations of the company started in February 2002) to provide an institutional structure for the Clearing and settlement of transactions undertaken in Government securities, Money Market instruments and Foreign exchange products. The principal promoters of CCIL are State Bank of India (SBI), IDBI Bank, LIC, Bank of Baroda, ICICI bank and HDFC Bank. It is an associate of SBI with the bank’s shareholding standing at 21.20% as on March 31, 2016.

The focus of the company since inception has been to position itself as a premier financial intermediary in the clearing and settlement of transactions across a wide range of market participants (primarily banks, PDs, Mutual funds). In its initial years of operations (2002-2004), the company built its expertise in the settlement of government securities and forex transactions. Having established itself as the sole financial intermediary for the above mentioned activities in the initial 2-3 years of operations, the company had launched the money market instrument called Collateralized Borrowing and Lending Obligation [CBLO], wherein it enabled secured lending/borrowing across counterparties. This in-house developed product (CBLO) now forms a sizeable 22% of its total business volumes¹.

The operations of the company revolve around its strong risk management capabilities, robust technology processes, and significant reduction in bilateral exposure between counterparties. The operations of the company are virtually de-risked through delivery versus payment mode of settlement, i.e., it releases the security on receipt of funds and vice-versa. Furthermore, the clients of CCIL themselves are institutions like banks, PDs, mutual funds that operate in a regulated environment. The strong risk management capabilities of the company are evident from the fact that since inception, it has been able to provide guaranteed settlement of trades to its members without any disruption. The other important highlights in the operations of the company are significant reduction of fund requirements by the participants. The trades are settled through the process of multilateral netting, with CCIL as the central counterparty. Based on the net positions, the respective final obligation of the participant with CCIL is arrived at. Having developed expertise in its business processes, CCIL has been able to significantly reduce the fund requirements over the years on the part the participants for a given level of trading volumes.

CCIL is the sole player for clearing and settlement of transactions in the G-Sec, money market and forex instruments. The 12 directors on CCIL’s board¹ (5 independent) provide strategic vision and growth plans to meet evolving market requirements. In ICRA’s view, it is unlikely that a new entrant in the market would receive the same level of acceptance and confidence as does CCIL, at least over the medium term.

The company has an ISO 27001 certification for all the activities, suggesting strong focus on the entire business processes. Entry barrier for a new player also emanate from the fact that CCIL is strong on IT platforms and risk management systems in addition to its low transaction charges. These may be difficult for any new player to offer / introduce at least over the medium term.

¹ For FY2016

In FY2016, the growth in settlement volumes was sluggish at around 7% (~9% YoY in FY2015). Out of the three major segments, government security segment witnessed slowest growth (of around 4%) followed by money market (6% YoY) and foreign exchange segments (10% YoY). The volume mix across segments remains evenly distributed across foreign exchange (44%²), government securities (33%²) and money market (22%²) transactions.

CCIL reported a total income of Rs 453 Crores in 9MFY2016 as compared to Rs 497 Crores in 9MFY2015. The decline in the income was on account of softening of transaction charges (by around 33%) for outright transactions in the G-Sec segment despite the volume growth seen across segments. With operating expenses remaining stable, the company's net profitability reflected the trend in top-line by declining by 12%YoY (to Rs 241 Crores during 9MFY2016 from Rs 274 Crores in 9MFY2015).

The company remains well-capitalised with its Settlement Reserve Fund crossing the Rs. 1,000 Crore mark to stand at 1,000.81 crores as on March 31, 2016. The net worth of the company as on March 31, 2016 stood at ~Rs 1970 Crores.

In April 2015, CCIL has introduced payment-versus-payment mode of settlement in foreign exchange segment which has resulted in, as per the management, a substantial reduction of risk for members and in August 2015, CCIL through its subsidiary, Clearcorp Dealing Systems (India) Ltd., launched ASTROID, an Anonymous System for Trading in Rupee IRS.

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² As a proportion of total settlement volumes during FY2016

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